BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2004-5-G - ORDER NO. 2005-79

JULY 1, 2005

IN RE: Annual Review of Purchased Gas Adjustments and Gas Purchasing Policies of South Carolina Electric & Gas Company	)	ORDER RULING ON PGA AND GAS PURCHASING PRACTICES

This matter comes before the Public Service Commission of South Carolina (the "Commission") for the Annual Review of the Purchased Gas Adjustment ("PGA") and the Gas Purchasing Policies of South Carolina Electric & Gas Company ("SCE&G" or "Company"). In addition, pursuant to Order No. 94-1117, the Commission has reviewed the collection of environmental clean-up costs ("ECC") for the relevant period.

By letter dated June 1, 2004, this Commission instructed the Company to publish a notice (once, in a newspaper(s) of general circulation, in the relevant review areas) advising all interested parties of the manner and time in which to file pleadings to obtain the right to participate in this review. The Commission further instructed SCE&G to provide direct notification of the PGA review to all customers affected thereby. The Company provided affidavits to confirm its compliance with the Commission's instructions. Following this notification, on July 6, 2004, the Consumer Advocate for the State of South Carolina ("Consumer Advocate") filed a Petition to Intervene.

On October 21, 2004, the Commission held a hearing into this matter in its offices. The Honorable Randy Mitchell, Chair, presided. SCE&G was represented by

Francis P. Mood, Esquire, and Catherine D. Taylor, Esquire. The Consumer Advocate was represented by Elliott F. Elam, Jr., Esquire, and the Commission Staff was represented by F. David Butler, General Counsel.

SCE&G presented the testimony of witnesses Martin K. Phalen and Harry L. Scruggs. The Commission Staff presented the testimony of then staff witnesses Roy H. Barnette and Brent L. Sires. The Consumer Advocate did not present testimony.

For the reasons stated herein, the Commission finds that SCE&G's purchasing practices for the review period were prudent, and, therefore, approves the requested increase in the fuel factor for the coming twelve-month period beginning November 1, 2004, and ending October 31, 2005. The new factor of 90.347 cents per therm shall be effective as of the first billing cycle of November, 2004. By this Order, we also maintain the current ECC collection factor at 0.8 cents per therm.

Summary of Testimony

Mr. Martin K. Phalen

Martin K. Phalen, Vice President of Gas Operations for SCE&G, briefly addressed the recently-announced merger between South Carolina Pipeline Corporation ("SCPC") and SCG Pipeline ("SCG"). He then provided testimony regarding the maintenance and system protection practices, projects for system growth, and continued safety training practices of the Company, followed by testimony regarding the operations and purchasing practices of the SCE&G natural gas distribution system for the period of review and the Industrial Sales Program Rider ("ISP" or "ISP-R"). He also discussed the current status of the ECC factor resulting from the clean-up of former manufactured gas plant ("MGP") sites. Finally, Mr. Phalen discussed the Company's requested PGA factor.

Mr. Phalen briefly discussed SCPC's recently-announced plan to merge with SCG, and stated that, at present, the full impact of this planned merger on SCE&G's gas purchasing practices was not known, but that the Company anticipated that it will consider several options regarding procuring its own gas supply. He indicated that the Company might need to come before the Commission during the upcoming review period for any adjustments necessitated as a result of the merger.

Mr. Phalen then described SCE&G's gas distribution system, which consists of approximately 6,800 miles of mains that carry natural gas to more than 279,000 homes, factories and businesses in 34 of South Carolina's 46 counties. Mr. Phalen stated that because the SCE&G system is geographically diverse, the Company operates and maintains approximately 193 metered delivery points for delivery from SCPC, its supplier. The Company relies on SCPC to provide consolidated delivery of supply and to connect the numerous town border stations throughout SCE&G's service territory.

SCE&G also operates and maintains two propane air facilities, which provide peak day injections of propane air into the natural gas distribution system. The Lucius Road facility, located on the banks of the Columbia Canal in Columbia, is capable of providing 50,000 mcf natural gas equivalent into the Columbia distribution system. The Leeds Avenue facility is located just north of the Charleston peninsula and is capable of injecting 20,000 mcf natural gas equivalent into the Charleston distribution system. Each plant interacts with the respective distribution system it supplements in a distinctive manner due to geographics. The Lucius Road plant injects propane air into the 150 psig, ten-inch pipeline loop around Columbia; whereas the Leeds Avenue facility supplements sixteen, twelve, and ten inch steel pipelines traversing the Charleston peninsula. These facilities serve SCE&G's systems when necessary, and, with contracted demand, provide the company with an effective and reliable supply mix.

Mr. Phalen testified regarding the continuous nature of the Company's maintenance and system protection practices, including the success of its Cathodic Protection (CP) monitoring and repair and its systems for maintaining the integrity of its pipelines from encroachments. He also provided testimony regarding several new projects in support of system growth and efforts to improve system reliability in Lexington, Charleston, and the Santee/Holly Hill area. He also testified regarding the Company's full compliance with the Operator Qualifications of the Office of Pipeline Safety and other safety training practices of the Company.

Mr. Phalen testified that, SCE&G planned to continue to contract with SCPC for its firm contract demand of 276,495 DTs per day until SCPC's merger with SCG was consummated. He stated that the current volume contracted for, in addition to that produced by SCE&G's two propane air plants, is used to serve SCE&G's core market – firm residential, commercial and industrial customers. SCE&G also serves approximately 321 interruptible industrial and commercial customers. He stated that , SCPC's staff planned to continue to provide the technical expertise to perform the complicated issues involving the purchase, transportation, and exchange of natural gas volumes on behalf of SCE&G until the SCPC-SCG merger was completed.

Mr. Phalen noted that, in Docket No. 2003-5-G, SCE&G had its Supply Plan reviewed by an independent expert, Mr. Dan Ives. Mr. Phalen stated that since last year's PGA Review there have been no significant changes in the matters discussed by Mr. Ives. SCE&G plans to review its gas purchasing practices with the Commission when the impact of the SCPC-SCG merger is clear.

Mr. Phalen testified that approximately 50% of SCE&G's total gas sales are to interruptible customers who have elected to execute interruptible service agreements and use alternate fuels. An interruptible customer relies on an alternate fuel system for two reasons. First, in the event of a curtailment of natural gas service from SCE&G, which is usually due to extreme weather, the interruptible industrial customer may utilize an alternate fuel to maintain operations for the duration of the natural gas curtailment. Secondly, if the weighted average price of gas from SCE&G is higher than the cost of the interruptible industrial's alternate fuel, the customer would likely utilize its alternate fuel as opposed to burning natural gas. Addressing the latter situation, in 1983, the Commission approved the ISP-R. Mr. Phalen testified that, since that time, the ISP-R has been periodically reviewed by the Commission and its reasonableness has been upheld by South Carolina Courts.

As to environmental issues, Mr. Phalen stated that SCE&G continues to work, with oversight from the Environmental Protection Agency (EPA) and the South Carolina Department of Health and Environmental Control (DHEC), to monitor and perform clean-up activities at its various MGP sites, and provided an update as to the progress at each. He also testified regarding the Company's Superfund liability for a site located in

Cordova, North Carolina due to shipments to the site from the Columbia area. He described the Company's cumulative expenses to date as within the estimates presented to this Commission in prior PGA proceedings. He therefore, requested that the MGP – ECC factor be maintained at 0.8 cents per therm.

Mr. Phalen requested approval of a new PGA factor of 90.347 cents per therm. This factor is an increase over the current level of 87.656 cents per therm. He stated that the Company's pricing forecast methodology has been discussed previously with the Commission and remains unchanged.

Finally, Mr. Phalen offered testimony that SCE&G's purchasing practices are prudent, striking a reasonable balance between reliability and price, and that the ISP-R continues to allow SCE&G to retain interruptible load while improving load factor and reducing system costs.

Mr. Harry L. Scruggs

Mr. Harry Scruggs, Senior Rate and Regulatory Specialist in the Gas Rate Department of SCE&G, addressed the operations of the ISP-R mechanism, provided updated information regarding the balance of the Company's MGP-ECC program, and provided the Company's forecasted cost of gas.

Mr. Scruggs testified that prior to the beginning of each month, interruptible customers, with competitive fuel rate provisions in their SCE&G natural gas service agreements, inform SCE&G of the as-fired (burner tip) cost of their alternate fuel. From this cost, SCE&G subtracts its markup and makes allowances for system losses and revenue taxes to determine the maximum price it can pay its supplier for volumes of natural gas necessary to satisfy the requirements for each customer. If the ISP-R volumes are available, SCE&G will make purchases on behalf of competitively priced customers. No additional ISP-R volumes are purchased by SCE&G. If SCPC does not have natural gas volumes available which allow SCE&G to collect its contract gas margin, the Company can elect to reduce its margin and buy the higher priced gas from SCPC. In addition, if the projected cost of natural gas available for the ISP-R results in a higher price than the interruptible industrial's alternate fuel, then the customer has the option of paying a premium for natural gas deliveries for the month, as compared to the alternate fuel, or burning the installed alternate fuel for the month.

Mr. Scruggs testified that all SCE&G customers benefit from SCE&G's use of the ISP-R, because the margins collected help to offset the fixed costs of doing business. He explained that without the ISP-R, SCE&G could not effectively compete against alternate fuel prices. Because of the ISP-R, interruptible customers have remained on the SCE&G system and have continued to purchase natural gas volumes from SCE&G. Mr. Scruggs opined that these same customers would likely have switched to an alternate fuel absent the ISP-R.

Margin revenues from interruptible customers cover a portion of SCE&G's fixed costs. Without the competitive sales provided by the ISP-R, more fixed costs would be borne by SCE&G's firm customers. As a result, the margin charged to SCE&G's firm customers (most of which are residential) would be higher. During the period of

September, 2003 through August, 2004, the margin revenue generated by the ISP-R was approximately $10 million.

Mr. Scruggs then discussed the MGP-ECC during the review period. He stated that the Company collected a total of $2,498,235 from firm sales and transportation customers and interruptible sales customers. The cumulative amount amortized through August 31, 2004 is $35,890,664. Mr. Scruggs outlined the remaining balance that SCE&G would need to recover, $8,720,638, and explained how it was calculated. He reiterated the Company's request that the MGP-ECC remain at its current level of 0.8 cents per therm.

Mr. Scruggs also reviewed the Company's cost of gas data for the period under review. He stated that the current PGA factor was based on projections made in October, 2003 and instituted in the first billing cycle of November, 2003. As explained by Mr. Scruggs, the Company has an over collection of $5,338,063 as of October 31, 2004.

Mr. Scruggs described the Company's forecasting methodology for future cost of gas. He stated that the first step in SCE&G's forecasting methodology, which was reviewed by the Commission in Docket No. 2003-5-G and remains unchanged, is based on a review of actual cost of gas for the Company's firm customers from September 1, 2003, through August 31, 2004, and is based on the monthly bills received by SCE&G from SCPC for each month's purchases. This historic actual purchasing profile is used as the starting point to project future gas costs.

The purchases were affected by changes to SCPC's cost of gas that reflect differences in the rates it pays to FERC–regulated interstate gas pipelines as well as differences in commodity prices. He stated that Southern Natural Gas Corporation ("SNG") had filed a rate case, but that the impact on SCE&G's rates was undetermined at the time. The interstate firm transportation rates are the rates currently in effect as of September 1, 2004.

The commodity cost for all of Pipeline's supply was developed using New York Mercantile Exchange ("NYMEX") index prices for the future twelve months period, plus shrinkage, non-gas surcharges and commodity markups and adjusted for SCPC's hedging program. Mr. Scruggs stated that the NYMEX prices are volatile and therefore are subject to increases or decreases. Mr. Scruggs presented a summary of the Company's projected monthly cost of gas adjusted for changes as discussed above. This results in an average annual recalculated cost of 88.357 cents per therm. The Company proposes to refund, in this docket, a $5,338,063 over collection realized during prior periods. Dividing this over collection by the projected firm sales for November 1, 2004 through October 31, 2005 develops a rate per them of 2.301 cents per them. The projected gas cost of 92.648 cents per therm was adjusted for the 2.301 cents per therm to produce a total cost of 90.347 cents per therm. The increase in annual bills for all firm customers including residential, commercial and industrial customers will be about 2.5%. Residential customers with annual usage of 600 therms will see an increase on their annual bill of approximately $16.21.

Mr. Roy H. Barnette

Mr. Roy Barnette, at the time an Auditor with the Commission, testified on behalf of the Commission Staff. Mr. Barnette summarized the Audit Staff's findings and stated that Staff had verified SCE&G's gas costs and Environmental Cleanup Costs for the test year ended August 31, 2004. According to Mr. Barnette, including the projections made by the Company for September and October 2004, the cumulative net over collection, as of October 31, 2004, is $5,338,064. The Company's proposed cost of gas for the twelve (12) months ending October, 2005, is $.90347, which is designed to refund the entire over-collection at October 31, 2005. SCE&G's total environmental liability is estimated at $57,000,000. After deductions of $35,890,665 for amortization and collections, and $12,388,698 from insurance commitments, the outstanding balance to be collected for ECC through the PGA is $8,720,637.

Mr. Brent L. Sires

Mr. Brent Sires, then Chief of Gas in the Commission's Utilities Department, also testified on behalf of the Commission Staff. Mr. Sires presented the Utilities Department's findings and recommendations resulting from its analysis of the Company's gas purchasing policies, ISP-R, and the cost of gas factor for the period November, 2004 through October, 2005.

Mr. Sires stated that the Company uses a levelized cost of gas component in its published tariff rates, which allows the Company to project its cost of gas over a twelve month period. On a monthly basis, the Company records (in a deferred or unbilled account) the difference between the cost of gas as collected from its customers and the actual cost of gas incurred by the Company. The Company files monthly reports on this account with the Commission to keep the Commission informed on the activity in that account. The account reflects the net accumulation of over- or under-collection of gas costs from SCE&G's customers, and the net variance in the account is treated as a true-up provision. The accumulated over- or under-recovery is recovered or credited in the succeeding twelve month period.

The approved procedure also allows for out-of-period adjustments should significant, unanticipated changes to the Company's cost of gas arise. During the current review period, SCE&G did not file a petition for approval of an out of period adjustment to the levelized cost of gas component.

Mr. Sires explained the various factors resulting in an over-collection, including hedging gains and losses and the recovery of actual gas costs. He also discussed the impact of the weather on sales as a contributing factor. He recommended that the Company continue to monitor and report its monthly over- or under-recovery of gas costs, and that the Commission continue to recognize that as gas costs change, the utility will need to seek Commission review and approval of out-of-period adjustments to the levelized cost of gas factor.

Mr. Sires noted the Company's request to maintain the current ECC and stated that the Staff takes no exception to the requested factor.

Mr. Sires discussed the prudence of SCE&G's use of SCPC and stated that, in the opinion of the Utilities Department, SCE&G receives adequate supplies of firm gas to meet its captive customers' needs and is prudent with regard to its purchases of gas supplies from SCPC. He stated that, in light of the many changes which continue to take place which affect the securing and transportation of gas, SCE&G should continue its ongoing program to ensure that its gas supply is consistent with its customers' needs and to ensure that supply efficiency is maintained at reasonable costs.

Finally, Mr. Sires stated that the operation of the Company's ISP-R program should continue, since this mechanism allows SCE&G to compete with alternate fuels.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

Based on the evidence in the record, the Commission makes the following findings and conclusions:

1. We find that SCE&G's gas purchasing practices for the period under review are prudent and that SCE&G has properly recovered its gas costs pursuant to the terms and conditions of the Company's approved tariff. The direct testimony of Company witnesses Phalen and Scruggs specifically support this conclusion.

Mr. Phalen notes that SCE&G purchases its gas from SCPC under tariffs approved by this Commission. Further, the operation of the SCPC system is backed by experience among the various members of its staff. We specifically find that SCE&G's purchasing practices are prudent and provide a reliable source of reasonably priced gas to meet its customers' needs.

2. The base cost of gas for the coming period shall be 90.347 cents per therm effective as of the first billing cycle in November, 2004. The testimony of witnesses Scruggs and Sires support this conclusion.

Mr. Scruggs provided historical data for the review period September, 2003 through August, 2004 and provided computations for the projected cost of gas per therm for the coming period, September, 2004 through October, 2005. After all calculations are reviewed, the conclusion is that the base cost of gas should be increased to 90.347 cents per therm. The direct testimony of Staff Witness Sires supports Mr. Scruggs' analysis, and the Commission finds no contradictory evidence in the record.

3. The Company shall maintain the level of the ECC factor at 0.8 cents per therm. Maintaining the current ECC will provide an avenue for the Company to recover the remaining balance of these expenses barring any unforeseen circumstances. The ECC factor shall be effective beginning with the first billing cycle of November, 2004. The uncontroverted testimony of Company witnesses Phalen and Scruggs and Staff witness Sires specifically support this finding of the Commission.

4. The current industrial sales program shall be continued. The value of this program to the Company's firm customers was discussed by Company witnesses Phalen and Scruggs, and the evidence supporting this finding was uncontroverted. Staff witness Sires also expressed support for the continuance of the program.

5. We find that SCE&G shall continue to file with this Commission quarterly updates related to review of the benefits of diversifying SCE&G's natural gas supply as required by Order No. 2002-747 in Docket No. 2002-5-G and as described in Order No. 2002-747 and Order No. 2002-837.

6. The tariffs and rate schedules shall be filed reflecting the findings herein within five (5) days of the receipt of this Order by the Company.

7. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Randy Mitchell, Chairman

ATTEST:

G. O'Neal Hamilton, Vice Chairman

(SEAL)